

By Mike Lillis, CQ - 15/15/10 04:30 PM ET

Warning that a payroll tax cut would undermine Social Security, a group of House liberals introduced legislation Wednesday to eliminate the provision from the White House tax-cut deal.

Behind Rep. Lloyd Doggett (D-Texas), the Democrats maintain the one-year payroll-tax holiday will likely be extended in future years, leaving Social Security to compete with other programs for funding — and threatening seniors' benefits over the long haul.

There's a very good reason why people pay Social Security taxes — so they'll get Social Security," Doggett said at a press conference in the Capitol. "I'd rather have nothing done in this area than to do great harm."

Rep. Rush Holt (D-N.J.) warned the provision could dismantle Social Security's ownership-based funding mechanism, in which workers pay into the program while they're employed to tap the benefits in retirement.

"It undermines the very rationale of Social Security in ways that could do long-term damage," Holt said. "As much as we need economic stimulus now, we will need Social Security for decades to come."

Doggett said it's unclear how much support he'll have for his amendment. The tax package — which passed the Senate 81-19 on Wednesday — is scheduled for consideration in the House Rules Committee Wednesday afternoon. House Democratic leaders have said the final vote on the bill will likely be Thursday.

Doggett and Rep. Peter DeFazio (D-Ore.), among the most vocal critics of the White House proposal, both said they intend to vote against the package unless the payroll-tax provision is altered.

"This is a raw deal," DeFazio said.

The tax-cut proposal — crafted by the White House and Senate Republicans — would reduce the payroll tax from 6.2 to 4.2 percent in 2011. The cut is two percentage points, but represents a real payroll tax cut of 32 percent. A worker currently earning \$100,000, for instance, will pay \$6,200 in payroll taxes in 2010, and \$4,200 in 2011 if the bill passes — a 32 percent reduction.

The payroll tax holiday is scheduled to expire at the end of 2011. But critics contend there will be little appetite in Congress to return the tax to 6.2 percent in 2012 — a move likely to be packaged by anti-tax advocates as a 48 percent tax hike in a presidential election year.

"There is a real danger ... that it will be changed into a permanent deduction," said Max Richtman, executive vice president of the National Committee to Preserve Social Security and Medicare, an advocacy group.

The Congressional Budget Office (CBO) estimates the cut will reduce federal revenues by \$112 billion over the next two years. Because the tax package is not offset by changes elsewhere in the budget, the government will have to borrow to fill that hole in the Social Security trust fund.

With the country's newfound focus on deficit reduction, the liberals said, backfilling the trust fund with borrowed money will leave Social Security vying for funds against other discretionary programs, like public television and national parks.

"By having this holiday we're breaking the contract," DeFazio said. "Most members do not understand the implications of this."